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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000646

SIPDIS

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TAGS: ECON PGOV PREL AM

SUBJECT: RUSSIA/GEORGIA CONFLICT TAKES SMALLER ECONOMIC
TOLL THAN FEARED

REF: A. A) YEREVAN 639

¶B. B) 8/11 TBILISI/YEREVAN E-MAIL

Classified By: CDA JOSEPH PENNINGTON. REASON 1.4 (B/D)

SUMMARY

¶1. (C) Given the extent to which Armenia depends on products imported through Georgia, the conflict that erupted last weekend between Russia and Georgia threatened a severe impact on Armenia's economy. With the worst of the conflict seemingly now behind us, Armenia has not suffered serious harm and the crisis seems to have calmed just at the moment when Armenian public fears were on the cusp of spiking upward. While many consumers may believe that the situation will soon return to normal, some GOAM officials remain anxious. The incident was a sharp reminder of Armenia's vulnerability to any disruption of its main import/export route through Georgia. End Summary.

¶2. (C) The conflict between Georgia and Russia created widespread concern in Armenia, although there seemed to be a time lag of a day or two before the general public fully awoke to the risks to the Armenian economy. Armenia receives significant amounts of foodstuffs and other products through the Georgian port of Poti, as well as virtually all of its gasoline, diesel, and aviation fuel. Russian bombardment and subsequent closure of the port of Poti, closure of key roads and railroads in Georgia, as well as the feared prospect of the Georgian government commandeering Armenia-bound supplies, threatened what amounts to Armenia's primary economic lifeline. Following up their initial meeting on August 11 (reftel), Deputy Foreign Minister Gharibjanian told CDA on August 13 that Armenia's current inventories of two key commodities - fuel and grain - are sufficient for approximately 30 days. While this may be enough to allay concerns of consumers and producers and discourage panic buying, Gharibjanian expressed concern that even if the port in Poti reopens, there is now a technical problem on the rail line leading from Poti to Armenia that may delay indefinitely movement of trains along that route. It is also not clear at this point whether the roads and rail lines leading from Poti to Armenia are fully operational. Dissenting from what we have heard from other GOAM officials, a Transport Ministry spokeswoman claimed there is no problem with the Georgian railroad line.

ENERGY IMPORTS THREATENED

¶3. (C) Virtually all of Armenia's gasoline, diesel, and jet fuel is imported from Bulgaria, Ukraine and Kazakhstan, and all of it arrives by sea through the Port of Poti. Its closure would cut off fuel supplies to Armenia, as there is no viable alternative port and road network that could bring it to Armenia. According to our local energy experts, a train carrying fuel mentioned reftel as having been stopped at the border) arrived from Georgia Tuesday morning (August 12), but

the arrival of the next shipment will depend on when the port of Poti is back in operation and whether the routes to Armenia are in working order. Gasoline could potentially be imported from Iran, but the transport would be difficult and the quality is considerably inferior. We see little indication at present that importers are looking seriously at alternate sources and routes.

¶ 14. (C) On Monday, August 11, some filling stations in Yerevan were unevenly rationing fuel, limiting customers to five or 10 liters per purchase, while other stations operated normally. This appeared to be an initiative undertaken independently by a number of gas stations, ostensibly to discourage panic buying, and not in response to any government directive. Nonetheless, this prompted concerns that fuel supplies would soon be exhausted. Experience of post employees, however, suggests that is not the case. While some reported being limited to purchases of ten liters, one reported being asked for "ration coupons," and several reported that stations had exhausted their inventory, other employees have been able to fill their tanks with no difficulty. Some stations have increased prices in recent days by AMD 10/litre (12.5 cents/gallon), that represents just a 2.2 percent increase, much less than might be expected in anticipation of a major supply disruption.

¶ 15. (C) Armenia receives all of its natural gas from Russia via a pipeline through Georgia. While this pipeline is still operating, the volume of gas shipped has been cut by a third to half -- reports on the reduction differ, but our most

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reliable energy expert insists that the cut is in half, and asserts that Russia must be to blame, since Georgia has no gas storage capacity and thus has neither incentive nor physical means to absorb more than its customary share. At this time of year, Armenia still has enough gas to meet its needs. However, on August 11 a unit of the gas-fired Hrazdan Thermal Power Plant was shut down, and as a result Armenia can now generate only about 25 percent of the surplus electricity that it usually exports to Iran during the summer in exchange for Iran sending electricity to Armenia during the winter. (Note: Armenia still has sufficient generating capacity to meet its winter electricity needs, but with gas prices expected to rise in 2009, it is far more economical to generate and export surplus electricity now and receive it back from Iran next winter. End Note).

¶ 16. (C) Our local energy experts estimate that Armenia has in storage about a 15-day supply of natural gas at current rates of usage. If a genuine supply crisis were to erupt at this time of year, the GOAM could take various austerity measures to make it last 20-25 days. One possibility would be to take more water from Lake Sevan for hydropower generation and close the other Hrazdan gas-generation unit.

FLIGHTS CONTINUE TO ARRIVE AND DEPART

¶ 17. (C) The Director of Armenia's Civil Aviation Authority told us that at this point Armenia has sufficient supplies of jet fuel. However, Mikhail Bagdasarov, owner of MIKA and the exclusive supplier of jet fuel to Zvartnots Airport, told CDA this past weekend that due to a tripling of transport charges imposed by suppliers, he is not currently providing additional fuel to Zvartnots pending negotiation of a more favorable agreement, and estimated that at the time Zvartnots had approximately a six-day supply of jet fuel. (Note: It is not clear if there is any connection between this price dispute, which reportedly began about 10 days ago, and the current conflict).

¶ 18. (C) To date both BMI and Austrian Airlines have told us that they are not aware of any fuel shortages at Zvartnots or

of possible flight cancellations, and the Deputy Director General of the civil air authority confirmed that there are sufficient jet fuel stocks on hand. Deputy Foreign Minister Gharibjanian told CDA August 13 that the jet fuel supply was stable for at least the next 30 days. Gharibjanian worried, however, that unscheduled relief flights coming to Yerevan with humanitarian supplies bound for Georgia (such flights have already arrived from Estonia and Lithuania) will further strain Armenia's aviation fuel supply, raising the possibility that planes could become stranded here. Czech Air suspended service temporarily last weekend for lack of pre-negotiated rights to redirect their flights across Turkish airspace in lieu of Georgia's. They resumed flights once they were able to get clearance to transit Turkish airspace. Other airlines already had such emergency redirect agreements in place and suffered no interruption. Post's travel agent has also confirmed that flights are proceeding as scheduled. Various sources report that Lufthansa, BMI, and Armavia are each planning to add some additional flights to meet the short-term demand. Some airlines likely could fly into Yerevan with enough fuel for a round trip, but for longer flights (e.g. London-Yerevan) it would be necessary to refuel here.

FOODSTUFF IMPORTS UNDER THREAT

¶ 9. (C) The MFA on Monday expressed concern about the impact of the conflict on imports of various foodstuffs, most notably sugar. On August 12, Transport and Communication Minister Gurgen Sargsian said that the conflict in Georgia had not affected Armenia's imports or exports, that there is no shortage of any food or commodity, and there is no reason to panic. While we have heard anecdotal reports about people stocking up, we have seen no indication thus far of a run on stores, which remain stocked at normal levels.

¶ 10. (C) The logistics manager of Coca-Cola in Armenia, a major sugar importer, told us that if the port of Poti is closed, there are few viable alternative routes for importing sugar. Batumi, Georgia's other major port, is likely not feasible so long as the main Georgian East-West trucking route through Gori and Tbilisi to Bagratashen is in the conflict zone. It might be possible for Armenia to import sugar and other Russian-made food supplies via the Russian Caspian seaport Astrakhan to one of Iran's Caspian ports, then back west across northern Iran to the southern Armenian border town of Meghri, and thence back north to Yerevan. However, as the mere description suggests, that

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would be a complicated, time-intensive, and very expensive routing. Other contacts in the business community confirmed that the GOAM was considering sending a delegation to Astrakhan to look for alternate means of delivering cargo to Armenia, should the Georgian problem remain unsettled for a longer duration. Several major importers have expressed to us that their current plan is simply to wait and see, in hopes of a quick return to normal functioning, rather than rush into setting up new, less direct, import routes.

¶ 11. (C) Many of our government and business contacts fret that the Georgian government may commandeer Armenia-bound foodstuffs coming in via Poti. GOAM officials were sufficiently concerned to raise the matter with us and with the GOG, but we have no information to suggest that has actually happened. Embassy Tbilisi reported to us (Ref B) that the Georgian NSC and MFA each denied any such Georgian intention. Gharibjanian told CDA August 13 that the government remained concerned about the country's grain supply, the bulk of which comes to Armenia through Poti.

PANICS AND PRICE RISES

¶12. (C) Despite concerns that interruption (or expectations of interruptions) of imports could create a spree of panic buying, there has been little noticeable impact on consumer prices nor have there been observable shortages. Neither food nor fuel prices have experienced the dramatic increases that might be expected with a sudden supply disruption. One price that has seen a sharp increase, according to a contact, was for the trip from Tbilisi to Yerevan by marshrutka (minibus), which reportedly increased from about USD 20 to USD 120 during the brief flurry of much-heightened demand.

COMMENT

¶13. (C) GOAM concerns about possible disruptions of food and fuel imports are not being reflected at the retail level, at least so far. While gasoline availability has been somewhat inconsistent in recent days, prices have remained quite stable. While there have been limited reports of Armenians stocking up on food staples, those prices have remained relatively stable as well. One possible explanation is that Armenians continue to expect this crisis to be short-lived, given superior Russian military power, and that the situation will return to normal in short order. Consequently, they may see no need to engage in the kind of panic buying that would quickly exhaust supplies and cause major price spikes. There also has been a distinct effort by Armenian government officials to downplay economic risks and soothe public anxieties, while at the same time various officials have expressed more serious anxieties privately to the diplomatic corps. In any case, it is clear that while a brief disruption can be weathered, in the event of a more prolonged interdiction to the Georgian trade route, Armenia's alternatives are scarce and highly-unattractive.

PENNINGTON